



The Budget in Brief FY 2011



Internal Revenue Service

Internal Revenue Service

(Dollars in Thousands)

| Appropriation / Budget Activity | FY 2009 | | FY 2010 Enacted | Request | FY 2011 | |
|---|-----------------|------------------------|---------------------|---------------------|------------------|---------------|
| | ARRA | Enacted ^{1,2} | | | \$ Change | % Change |
| Taxpayer Services | | \$2,293,000 | \$2,278,830 | \$2,321,975 | \$43,145 | 1.89% |
| Pre-filing Taxpayer Assistance and Education | | 661,000 | 685,063 | 693,753 | 8,690 | 1.27% |
| Filing and Account Services | | 1,632,000 | 1,593,767 | 1,628,222 | 34,455 | 2.16% |
| Enforcement | | \$5,117,267 | \$5,504,000 | \$5,797,400 | \$293,400 | 5.33% |
| Investigations | | 611,601 | 637,694 | 651,966 | 14,272 | 2.24% |
| Exam and Collections | | 4,355,186 | 4,706,350 | 4,974,618 | 268,268 | 5.70% |
| Regulatory | | 150,480 | 159,956 | 170,816 | 10,860 | 6.79% |
| Operations Support | | \$3,867,011 | \$4,083,884 | \$4,108,000 | \$24,116 | 0.59% |
| Infrastructure | | 875,538 | 900,852 | 889,929 | (\$10,923) | -1.21% |
| Shared Services and Support | | 1,269,642 | 1,296,629 | 1,337,776 | 41,147 | 3.17% |
| Information Services | | 1,721,831 | 1,886,403 | 1,880,295 | (\$6,108) | -0.32% |
| Business Systems Modernization | | \$229,914 | \$263,897 | \$386,908 | \$123,011 | 46.61% |
| Health Insurance Tax Credit Administration | \$80,000 | \$15,406 | \$15,512 | \$18,987 | \$3,475 | 22.40% |
| Subtotal Internal Revenue Service | \$80,000 | \$11,522,598 | \$12,146,123 | \$12,633,270 | \$487,147 | 4.01% |
| Offsetting Collections - Reimbursable | | \$113,896 | \$142,169 | \$144,592 | 2,423 | 1.70% |
| Mandatory Appropriation - User Fees | | 165,521 | 187,100 | 194,100 | 7,000 | 3.74% |
| Total Program Operating Level | \$80,000 | \$11,802,015 | \$12,475,392 | \$12,971,962 | \$496,570 | 3.98% |

¹ FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices (\$122M).

² FY 2009 Enacted represents the approved FY 2009 Operating Plan.

Explanation of Request

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. In FY 2009, the IRS collected \$2.345 trillion in taxes (gross receipts before tax refunds), 95 percent of federal government receipts. In order to protect the flow of revenue to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that already comes into the Treasury every year from hundreds of millions of taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

Total resources to support the IRS activities for FY 2011 are \$12,971,962,000. This

includes \$12,633,270,000 from direct appropriations, an estimated \$144,592,000 from reimbursable programs, and an estimated \$194,100,000 from user fees. The direct appropriation is a \$487,147,000 increase, or 4.01 percent, more than the FY 2010 enacted level of \$12,146,123,000.

The *IRS Strategic Plan 2009-2013* guides program and budget decisions and supports the Department of the Treasury Strategic Plan. The IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges.

The IRS Strategic Plan goals and objectives are:

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

To improve service and make voluntary compliance easier, the IRS must:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

To enforce the law to ensure everyone meets their obligations to pay taxes, the IRS must:

- Proactively enforce the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

- Make the IRS the best place to work in government;
- Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity;
- Use data and research across the organization to make informed decisions and allocate resources; and
- Ensure the privacy and security of data and safety and security of employees.

The FY 2011 President's Budget request for IRS provides the funding needed to implement key strategic priorities to achieve the Strategic Plan goals and objectives.

Enforcement Program: The FY 2011 President's Budget request includes an Enforcement account increase of \$293.4 million for investments in strong compliance programs, including a robust international enforcement initiative to address offshore tax evasion. The additional enforcement resources will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers. This increase is supported by a program integrity allocation adjustment that provides additional resources for the enforcement program.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment activities. The new enforcement personnel funded through a program integrity allocation adjustment in the FY 2011 President's Budget will generate more than \$1.9 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2013. Vigorous enforcement also encourages voluntary compliance, further increasing

revenue. The return on investment estimate does not include the revenue impact from the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

The tax law is complex and even sophisticated taxpayers can make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

Taxpayer Service Program: The FY 2011 President's Budget request includes a Taxpayer Services account increase of \$43.1 million. The increase includes \$20.9 million to improve telephone level of service, increasing the level of service performance target to 75 percent from 70 percent in FY 2009 and 71 percent in FY 2010.

To continue the effort to move taxpayer service to the internet, and to support the Treasury effort to increase paperless transactions, an additional \$25 million in Operations Support will be invested as part of a multi-year effort to improve the IRS.gov website infrastructure and redesign the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. Technology enhancements, including electronic filing and IRS.gov, allow more taxpayers to reach the IRS through the internet. In 2009, more than 1.7 billion web pages were viewed on www.irs.gov, and more than 54 million taxpayers checked their refund status by accessing *Where's My Refund?* in English or Spanish on the IRS website. Taxpayers also can use automated features found at 1-800-829-1040. In FY 2011, the IRS will complete the

implementation of the Form 1040, *U.S. Individual Income Tax Return*, and supporting forms and schedules, and continue adding new forms and schedules to the electronic business portfolio to further increase web use.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS.

In addition to the year-round assistance services previously listed, IRS services include issuance of tax forms and publications, rulings and regulations, Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. Many of these sites provide information in both English and Spanish.

Business Systems Modernization: The FY 2011 Budget provides \$386.9 million for Business Systems Modernization to complete the new taxpayer account database and continue investments in electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to 140 million individual taxpayers; and allow the IRS to expand its online services to manage increasing taxpayer service demands.

IRS Tax Preparer Strategy: In January 2010, the IRS announced multiple recommendations to increase oversight of federal tax return preparers, including new registration, testing, and continuing education requirements. The recommendations are intended to better leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax return

preparers. Planning and regulation preparation will proceed in FY 2010 with primary implementation of the initial changes anticipated in FY 2011.

Purpose of Program

The IRS serves individuals, businesses, and non-profit organizations, and processed more than 236 million tax returns in 2009. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap, the difference between taxes owed and taxes paid on time. To this end, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax and to pursue cases for which noncompliance is willful, even to the point of criminal tax evasion. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement.

The FY 2011 President's Budget request seeks funding to improve telephone level of service, to redesign IRS.gov, to support strong international tax and other compliance initiatives, and to complete the new taxpayer account database.

IRS FY 2011 Budget Highlights
(Dollars in thousands)

| Appropriation | Taxpayer Services | Enforcement | Operations Support | Business Systems Modernization | Health Insurance Tax Credit Administration | Total |
|--|--------------------|--------------------|--------------------|--------------------------------|--|---------------------|
| FY 2010 Enacted Budget | \$2,278,830 | \$5,504,000 | \$4,083,884 | \$263,897 | \$15,512 | \$12,146,123 |
| Changes to Base | | | | | | |
| Maintaining Current Levels (MCLs) | \$50,054 | \$110,506 | \$57,884 | \$889 | \$190 | \$219,523 |
| Pay Annualization | 11,643 | 27,964 | 7,608 | 243 | 15 | 47,473 |
| Pay Inflation Adjustment | 30,534 | 69,255 | 19,127 | 589 | 32 | 119,537 |
| Non-Pay Inflation Adjustment | 2,495 | 4,460 | 29,026 | | 140 | 36,121 |
| FERS Increased Participation | 5,382 | 8,827 | 2,123 | 57 | 3 | 16,392 |
| Other Adjustment | | | | | \$3,494 | \$3,494 |
| Resource Adj to Support Recovery Act-HCTC Prgm Expansion | | | | | 3,494 | 3,494 |
| Efficiencies/Savings | (28,023) | (7,092) | (155,314) | | (209) | (190,638) |
| Non-Recur Savings | | | (32,680) | | | (32,680) |
| Increase e-File Savings | (23,186) | | 378 | | | (22,808) |
| IT Infrastructure and Process Improvements | | | (75,000) | | | (75,000) |
| Reduce Procurement/Contracting | (2,878) | (2,246) | (19,697) | | (179) | (25,000) |
| Reduce Printing, Travel, and Training | (523) | (1,979) | (7,468) | | (30) | (10,000) |
| Reduce Tuition Assistance Program | (1,436) | (2,867) | (847) | | | (5,150) |
| Eliminate Selective Mailing of Forms and Publications | | | (20,000) | | | (20,000) |
| Subtotal Changes to Base | \$22,031 | \$103,414 | (97,430) | \$889 | \$3,475 | \$32,379 |
| FY 2011 Base | \$2,300,861 | \$5,607,414 | \$3,986,454 | \$264,786 | \$18,987 | \$12,178,502 |
| Program Changes | | | | | | |
| Program Reinvestment | \$2,792 | | | | | \$2,792 |
| Submission Processing Consolidation (Atlanta) | 2,792 | | | | | 2,792 |
| Program Decrease | (9,000) | | | | | (9,000) |
| Reduce Taxpayer Service Grant and Advocacy Programs | (9,000) | | | | | (9,000) |
| Program Increases | \$27,322 | \$189,986 | \$121,546 | \$122,122 | | \$460,976 |
| Taxpayer Service Initiatives | \$20,945 | | \$25,000 | | | \$45,945 |
| Improve IRS.gov | | | 25,000 | | | 25,000 |
| Increase Telephone Level of Service | 20,945 | | | | | 20,945 |
| Enforcement Initiatives | \$6,377 | \$189,986 | \$51,083 | | | \$247,446 |
| Address Business and Individual International Compliance | 1,779 | 97,527 | 21,780 | | | 121,086 |
| Reduce the Reporting Compliance Tax Gap | 769 | 59,687 | 17,223 | | | 77,679 |
| Reduce the Nonfiling and Underpayment Tax Gap | 91 | 28,166 | 9,924 | | | 38,181 |
| Support for Increased Enforcement Activities | 3,738 | | 1,262 | | | 5,000 |
| Maintain Recovery Act Staffing | | 4,606 | 894 | | | 5,500 |
| Business Systems Modernization (BSM) Initiative | | | \$45,463 | \$122,122 | | \$167,585 |
| Continue Migration from Aging Tax Administration System | | | 45,463 | 122,122 | | 167,585 |
| Subtotal FY 2011 Program Changes | \$21,114 | \$189,986 | \$121,546 | \$122,122 | | \$454,768 |
| Total FY 2011 President's Budget Request | \$2,321,975 | \$5,797,400 | \$4,108,000 | \$386,908 | \$18,987 | \$12,633,270 |

FY 2011 Budget Adjustments

The IRS funding increase for FY 2011 is \$487,147,000, which includes \$219,523,000 for maintaining current levels, a temporary base adjustment of \$3,494,000 to support the Recovery Act's expansion of the Health Coverage Tax Credit (HCTC), a decrease of \$32,680,000 from non-recurring activities, a decrease of \$157,958,000 from efficiencies and savings, and a program increase of \$454,768,000 to improve taxpayer service, strengthen enforcement, and complete the new taxpayer account database. By FY 2013, the revenue-producing enforcement investments are projected to increase annual enforcement revenue by \$1.9 billion.

The budget request supports these activities by proposing the following initiatives:

- \$20,945,000 to increase the telephone level of service, which includes a \$9.0 million reallocation from the Taxpayer Advocate Service (TAS), Low-Income Taxpayer Clinic (LITC) Grants program, Tax Counseling for the Elderly (TCE) program and the Volunteer Income Tax Assistance (VITA) Grants program;
- \$25,000,000 to improve and redesign the IRS.gov website;
- \$247,446,000 to reduce the tax gap by investing in a strong compliance program; and
- \$167,585,000 to complete development of the new taxpayer account database and continue investments in electronic filing systems.

FY 2010 Enacted

The FY 2010 enacted level for the IRS is \$12,146,123,000, supporting an estimated 95,070 FTE.

Maintaining Current Levels

Adjustments Necessary to Maintain Current Levels +\$219,523,000 / 0 FTE Funds are requested for: FY 2011 cost of the January 2010 pay increase of \$47,473,000, the proposed January 2011 pay raise of \$119,537,000, the cost of the increase in FERS agency contribution percentage of \$16,392,000, and non-labor related items such as contracts, travel, supplies, equipment, and a GSA rent adjustment of \$36,121,000.

Base Adjustments

Resource Adjustment to Support Recovery Act-HCTC Program Expansion +\$3,494,000 / 0 FTE This temporary base increase will provide additional contractor funding for the continued support, sustainability, administration, and operation of the HCTC program. Taxpayer participation in the HCTC program is expected to grow because of the Recovery Act. The additional contractor support will allow HCTC to serve a significantly larger participant population.

Technical FTE Adjustments \$0 / -318 FTE

This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget.

Efficiencies and Savings

Non-Recur Savings -\$32,680,000 / 0 FTE

This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2010 enforcement initiatives (e.g., IT equipment and training).

Increase e-File Savings -\$22,808,000 /

-472 FTE This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to fewer returns filed on paper in FY 2011. The number of returns filed electronically is expected to increase

substantially in FY 2011 with the addition of the recently enacted Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by all tax preparers filing more than ten returns in a calendar year.

Information Technology (IT) Infrastructure and Process Improvements

-\$75,000,000 / 0 FTE The IRS will reduce infrastructure costs through process improvements in IT infrastructure. Initiatives such as the Information Technology Infrastructure Library (ITIL) will allow the IRS to improve the quality of IT services. In addition, the IRS is working to achieve a Capability Maturity Model Integrated (CMMI) certification that will yield efficiencies in software engineering.

Reduce Procurement/Contracting

-\$25,000,000 / 0 FTE In accordance with Presidential guidance on controlling contracting costs, the IRS will generate savings by improving the effectiveness of existing acquisition practices and reduce the cost of contracts.

Reduce Printing, Travel, and Training

-\$10,000,000 / 0 FTE The IRS will generate savings by reducing agency-wide printing of selected internal manuals, selected training materials, and other items, non-case related travel and non-technical training.

Reduce Tuition Assistance Program (TAP)

-\$5,150,000 / 0 FTE The Tuition Assistance Program provides funding to employees for courses that support both career development and the IRS mission. In FY 2011, the IRS will generate savings by restructuring this program.

Eliminate Selective Mailing of Forms and Publications

-\$20,000,000 / 0 FTE The IRS will generate savings by eliminating the non-mandated notice inserts; the automatic mailing of Form 1040, *U.S. Individual Tax*

Return, tax packages; and the automatic mailing of business tax products.

Program Reinvestment

Submission Processing Consolidation

(Atlanta) +\$2,792,000 / 0 FTE Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the *Increased e-File Savings* will be reinvested to fund the one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will assist employees to find employment either in or outside the organization.

Program Decrease

Reduce Taxpayer Service Grant and Advocacy Programs

-\$9,000,000 / 0 FTE The FY 2010 appropriation included an additional \$3,500,000 to expand Taxpayer Advocate Service case processing activities; \$500,000 to increase the LITC grants program; \$1,000,000 to increase the TCE program; and \$4,000,000 to increase the VITA grants program. This program decrease will realign the programs to the 2010 requested level to fund the *Increase Telephone Level of Service* initiative.

Program Increases

Improve IRS.gov +\$25,000,000 / 0 FTE This initiative, part of a multi-year plan, will initiate the migration of IRS web content and applications from the current outdated portal infrastructures to a new consolidated IRS web environment. These funds will enable the IRS to complete the first phase of the migration of the taxpayer-facing content and applications and to begin the second phase of the migration and transition of approximately 35 percent of the public and partner-facing applications to the new environment.

Increase Telephone Level of Service

+\$20,945,000 / 0 FTE Recent legislation has led to an unprecedented demand for telephone

services over the past few years. In addition, the additional complexity of – and time needed to resolve – many phone calls, resulted in a decline in the telephone level of service. This initiative will improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011 through a program increase of \$11.9 million and a \$9.0 million reallocation from TAS and the LITC, TCE and VITA grant programs. Without the \$9.0 million reallocation, the FY 2011 level of service performance target would be 74 percent.

Address Business and Individual International Compliance +\$121,086,000 / +781 FTE This initiative supports the Presidential priority to address offshore tax evasion and builds on the IRS FY 2010 international enforcement initiative. It will allow the IRS to continue its multi-year investment in international tax compliance activities. It increases coverage of the most strategically important international issues, including large enterprises with international components operated by businesses and investors through multiple interrelated financial and tax entities and high-wealth individuals and the complex business enterprises they control.

This initiative will increase examinations of additional international issues pertaining to international structures involving tiered pass-through entities, corporations, and high-wealth individuals by a projected 4,864 cases. The increase in examinations will generate \$812.2 million in additional enforcement revenue once the new hires reach full potential in FY 2013.

Reduce the Reporting Compliance Tax Gap +\$77,679,000 / +700 FTE This initiative will improve compliance by increasing examination of field and correspondence individual return audits by 61,100 annually; business return audits by 1,200; audits

targeting employment, excise, and estate and gift taxes by 9,300; and Automated Underreporter (AUR) document matching individual return audits by 234,000. This request will generate \$659.6 million in additional enforcement revenue once new hires reach full potential in FY 2013.

Reduce the Nonfiling and Underpayment Tax Gap +\$38,181,000 / +406 FTE This initiative will allow the IRS to broaden its collection coverage and address the tax gap more effectively by increasing staff resources for field collection and the Automated Collection System (ACS) program. The additional staff will produce an additional 144,000 tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 22,500 tax delinquency investigations (TDI) (i.e., investigations of taxpayers with unfiled returns who have not responded to a notice). This request will generate \$474.4 million in additional enforcement revenue once new hires reach full potential in FY 2013.

Support of Increased Enforcement Activities +\$5,000,000 / +65 FTE Most tax enforcement actions result in downstream Accounts Management activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. This funding will allow the IRS to assist taxpayers to resolve issues early in the enforcement process, pay their taxes, and respond to and close out various enforcement actions. Improving the response to taxpayers who have received enforcement notices should increase revenue and reduce interest paid.

Maintain Recovery Act Staffing +\$5,500,000 / +31 FTE Among other responsibilities, the IRS is mandated by the Recovery Act to administer the new bond provisions. The IRS is required to issue a direct payment to the bond issuer. The unique nature of this new role requires continuous compliance reviews

and verification throughout the administrative life of the bonds. This initiative will extend IRS staffing resources received in the

Recovery Act to administer ongoing Recovery Act bond provisions.

Return on Investment for Enforcement Initiatives

| Dollars in Millions | | | | | |
|--|--|--|----------------------|-----------|------|
| | | | First Year (FY 2011) | | |
| | | | Cost | Revenue | ROI |
| FY 2011 Enforcement Investment | | | | | |
| All Enforcement Initiatives | | | \$247.4 | \$719.8 | 2.9 |
| Direct Revenue Producing Initiatives | | | \$236.9 | \$719.8 | 3.0 |
| Address Business and Individual International Compliance | | | 121.1 | 300.8 | 2.5 |
| Reduce the Reporting Compliance Tax Gap | | | 77.7 | 211.7 | 2.7 |
| Reduce the Nonfiling and Underpayment Tax Gap | | | 38.1 | 207.3 | 5.4 |
| Other Enforcement Initiatives | | | \$10.5 | \$0.0 | 0.0 |
| | | | | | |
| | | | Cost | Revenue | ROI |
| Full Performance (FY 2013) | | | | | |
| All Enforcement Initiatives | | | \$209.6 | \$1,946.2 | 9.3 |
| Direct Revenue Producing Initiatives | | | \$200.6 | \$1,946.2 | 9.7 |
| Address Business and Individual International Compliance | | | 101.3 | 812.2 | 8.0 |
| Reduce the Reporting Compliance Tax Gap | | | 65.8 | 659.6 | 10.0 |
| Reduce the Nonfiling and Underpayment Tax Gap | | | 33.5 | 474.4 | 14.2 |
| Other Enforcement Initiatives | | | \$9.0 | \$0.0 | 0.0 |

Business System Modernization (BSM) +\$167,585,000 / +156 FTE The BSM increase is a top priority for the IRS and will allow the completion of the new taxpayer account database for the 2012 filing season. The new taxpayer account database will result in faster refunds for taxpayers, improve service accuracy and timeliness, and enhance data security. Completion of the taxpayer account database is a prerequisite for other major initiatives such as significant expansion of online paperless services and next-generation enforcement technologies. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until it is completed.

Explanation of Budget Activities

Taxpayer Services

The FY 2011 President's Budget request is \$2,321,975,000 in direct appropriations, an estimated \$34,159,000 from reimbursable programs, and an estimated \$127,000,000 from user fees, for a total operating level of \$2,483,134,000. The direct appropriations level is an increase of 1.9 percent from the

FY 2010 enacted level. This appropriation funds the following budget activities.

Pre-Filing Taxpayer Assistance and Education (\$693,753,000 from direct appropriations and an estimated \$1,459,000 from reimbursable programs) This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing and Account Services (\$1,628,222,000 from direct appropriations, an estimated \$32,700,000 from reimbursable programs, and an estimated \$127,000,000 from user fees)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods.

Enforcement

The FY 2011 President's Budget request is \$5,797,400,000 in direct appropriations and an estimated \$61,506,000 from reimbursable programs for a total operating level of \$5,858,906,000. The direct appropriations level is an increase of 5.3 percent from the FY 2010 enacted level and includes additional tax enforcement activities funded through a program integrity allocation adjustment. This appropriation funds the following budget activities.

Investigations (\$651,966,000 from direct appropriations and an estimated \$50,567,000 from reimbursable programs)

This budget activity funds the criminal investigations programs that uncover criminal violations of the internal revenue tax laws and other financial crimes, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.

Exam and Collections (\$4,974,618,000 from direct appropriations and an estimated \$10,245,000 from reimbursable programs)

This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It also includes programs such as specialty program examinations (employment tax, excise tax and estate and gift exams), international

collections and international examinations. The budget activity also supports appeals and litigation activities associated with exam and collection.

Regulatory (\$170,816,000 from direct appropriations and an estimated \$694,000 from reimbursable programs)

This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Office of Professional Responsibility is funded within this budget activity and is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2011 President's Budget request is \$4,108,000,000 in direct appropriations, an estimated \$48,927,000 from reimbursable programs, and an estimated \$67,100,000 from user fees, for a total operating level of \$4,224,027,000. The direct appropriation level is an increase of 0.6 percent from the FY 2010 enacted level. This appropriation funds the following budget activities.

Infrastructure (\$889,929,000 from direct appropriations, an estimated \$398,000 from reimbursable programs, and an estimated \$16,100,000 from user fees) This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services and Support (\$1,337,776,000 from direct appropriations and an estimated \$33,110,000 from reimbursable programs)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$1,880,295,000 from direct appropriations, an estimated \$15,419,000 from reimbursable programs, and an estimated \$51,000,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities, including the public's toll-free access to tax information.

Business Systems Modernization (BSM)

The FY 2011 President's Budget request is \$386,908,000 in direct appropriations. This is an increase of 46.6 percent from the FY 2010 enacted level. This appropriation funds the following budget activity.

BSM (\$386,908,000 from direct appropriations) This budget activity funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems and to complete the new taxpayer account database. The completion of the core taxpayer account database is the cornerstone of modernization and is a prerequisite to the development of the

next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls. This activity also funds the ongoing development of the Modernized e-File platform for filing tax returns electronically. It also funds BSM labor and related contract costs.

Health Insurance Tax Credit Administration (HITCA)

The FY 2011 President's Budget request is \$18,987,000 in direct appropriations. This is an increase of 22.4 percent from the FY 2010 enacted level. This appropriation funds the following budget activity.

HITCA (\$18,987,000 from direct appropriations) This budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

Legislative Proposals

The FY 2011 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly \$26 billion over the next ten years. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies;
- Require information reporting on payments for services to corporations;
- Require a certified Tin (Taxpayer Identification Number) from contractors;
- Require increased information reporting on certain government payments;
- Increase information return penalties; and
- Require information reporting on expense payments relating to rental property.

Improve compliance by businesses –

Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes; and
- Increase certainty about the rules pertaining to classification of employees as independent contractors.

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would

be enhanced by specific tax administration proposals that would:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise;
- Allow assessment of criminal restitution as tax; and
- Codify “economic substance” doctrine.

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- Clarify that the bad check penalty applies to electronic checks and other forms of payment.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. These proposals would:

- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that a vendor levy on “goods and services” would not exclude “property”.

IRS Performance by Programs

| Programs | Performance Measure | FY 2007 | FY 2008 | FY 2009 | | FY 2010 | FY 2011 |
|------------------|---|---------|---------|---------|--------|---------|---------|
| | | Actual | Actual | Actual | Target | Target | Target |
| Taxpayer Service | Customer Contacts Resolved per Staff Year - E | 7,648 | 12,634 | 12,918 | 10,386 | 9,398 | 10,181 |
| | Customer Service Representative (CSR) Level of Service Oe (L) | 82.1% | 52.8% | 70.0% | 70.0% | 71.0% | 75.0% |
| | Percent of Individual Returns Processed Electronically (%) - Oe (L) | 57.1% | 57.6% | 65.9% | 64.0% | 70.2% | 81.0% |
| Enforcement | Examination Efficiency - Individual (1040) - E (L) | 137 | 138 | 138 | 132 | 132 | 128 |
| | Automated Collection System Accuracy (%) - Oe | 92.9% | 95.3% | 94.3% | 92.0% | 92.5% | 94.0% |
| | AUR Coverage E (L) | 2.5% | 2.6% | 2.6% | 2.5% | 3.0% | 3.4% |

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal

Description of Performance

In FY 2009, IRS continued to improve its service and enforcement results. The following is a summary of significant program performance improvements.

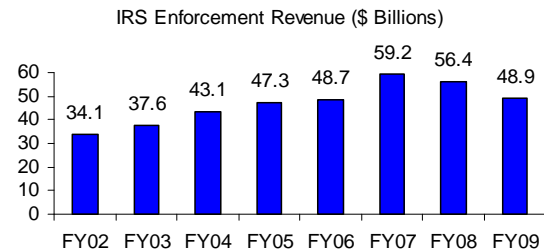
Enforcement

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth, noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

Total enforcement revenue was \$48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:

- Total individual audits increased 2.6 percent;
- Automated Underreporter (AUR) contact closures increased 2.6 percent;
- High-wealth audits increased 11.2 percent; and
- Large corporate audits increased 2.6 percent compared to 2008, a significant achievement given the size

(more than \$10 million) and complexity of these corporate entities.



In FY 2009, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. As part of an overall IRS strategy to improve offshore compliance, the IRS implemented initiatives to identify U.S. taxpayers who engaged in offshore tax evasion schemes. In August 2009, the IRS reached agreement with Swiss authorities that will result in the IRS receiving an unprecedented amount of information on taxpayers who evaded their tax obligations by hiding money offshore at UBS. This represents a major step forward for the IRS in its efforts to combat offshore tax evasion and will send a clear message to people hiding income and assets offshore that the IRS will vigorously pursue tax cheats, no matter how remote or secret the location.

At the same time, the IRS established an offshore voluntary disclosures/penalty framework for taxpayers to disclose their offshore activities. The framework provided taxpayers the opportunity to:

- Calculate the total cost of resolving all offshore tax issues;
- Become compliant with U.S. tax laws;
- Make voluntary disclosures that will be used to further the IRS understanding of how foreign accounts and foreign entities are promoted to U.S. taxpayers as ways to avoid or evade tax; and
- Provide data to be used in developing additional IRS strategies to inhibit promoters and facilitators from soliciting new clients.

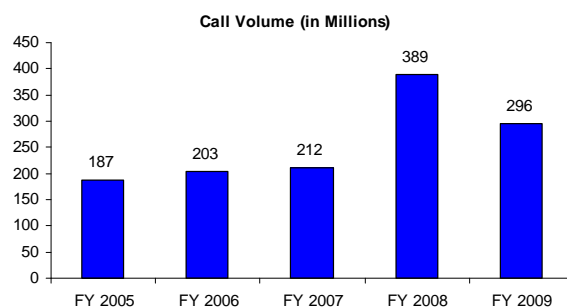
As a result of the offshore voluntary disclosure program that ran through October 15, 2009, more than 14,700 taxpayers with offshore accounts voluntarily came forward to disclose information bringing them back into the U.S. tax system. A key aspect of future international offshore work will be mining the information from people who came forward to identify financial institutions, advisors, and others who promote or otherwise helped U.S. taxpayers hide assets and income offshore.

In FY 2009, the IRS continued to investigate tax, money laundering, and other financial crimes that adversely affect tax administration. Performance levels for the criminal investigation program remained high during FY 2009, with 3,848 completed criminal investigations and 2,105 convictions.

Maintaining a strong enforcement presence in the tax-exempt sector is important to ensure that charitable organizations are not used for non-charitable or illegal purposes. During FY 2009, the IRS increased tax-exempt and government entities compliance contacts by 10 percent over FY 2008 levels.

Taxpayer Service

In FY 2009, the IRS continued to improve its services by providing year-round assistance to millions of taxpayers through multiple channels. Demand for telephone services remained high as taxpayers called to obtain information regarding economic stimulus payments, new Recovery Act credits, and prior year adjusted gross income (AGI) numbers needed for electronic filing. The significant increases in call demand stressed existing resources, resulting in a lower customer level of service. Despite the high call volume, the IRS continued to focus on the accuracy of information provided to taxpayers as both Toll-Free Tax Law and Toll-Free Accounts Accuracy performance surpassed the FY 2008 record-breaking numbers. The following chart shows the call volume from FY 2005 through FY 2009.



The Budget provides a significant investment to increase level of service by adding resources to meet the ever increasing demand and continuing to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements free up staff to deal with the more complex tax law issues stemming from the passage of the Recovery Act and the Worker, Homeownership, and Business Assistance Act of 2009.

In FY 2009, there were more than 296 million visits to IRS.gov. Taxpayers visited the website to obtain information on the Recovery

Rebate Credit, to determine if they qualify for the Earned Income Tax Credit (EITC), to track the status of their refunds using the *Where's My Refund?* application, and to get the most up-to-date information on Recovery Act credits. More than 54 million taxpayers used *Where's My Refund?*, a 39 percent increase over the same period in FY 2008. During FY 2009, the IRS received more than 296 million calls and helped more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers. The Budget will continue supporting these self-service options as well as support the development of additional enhancements such as calculators, on-line tools and information on new legislation in an easy, accessible format. In addition, the Budget supports a multi-year effort to improve the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. The new web environment will improve customer satisfaction by providing an enhanced look and feel, making navigation on the site easier, and improve the user's ability to locate desired information and access applications.

Despite these challenges, the IRS delivered another successful filing season. During FY 2009, the IRS received 144.4 million individual returns, 11.2 million fewer than 2008, when millions of taxpayers filed solely to receive an Economic Stimulus Payment. The number of refunds issued increased 3.5 percent to 111.4 million. The percentage of individual returns filed electronically reached 66 percent, with more than 95 million individual tax returns filed electronically, compared to 89.6 million in 2008, an increase of 6 percent. During 2009, home computer filing increased to more than 32.2 million, an increase of 19 percent.

The IRS provided extensive media coverage and expanded electronic outreach activities to make taxpayers aware of new credits, deductions, and exclusions for which they qualified. A second *Super Saturday* event was

held in FY 2009, and the IRS provided more than 11,000 taxpayers with tax assistance and return preparation. The event was the largest one-day outreach service event in IRS history. The IRS also provided assistance to millions of taxpayers by expanding partnerships with nonprofit and community organizations, opening more than 12,100 free tax preparation sites nationwide.

Business System Modernization

In FY 2009, IRS modernization efforts focused on providing more sophisticated tools to taxpayers. The Customer Account Data Engine (CADE), Modernized e-File (MeF), and Account Management Services (AMS) modernization projects delivered the changes necessary for a successful filing season, supported implementation of the Recovery Act provisions, and provided audit trails addressing security vulnerabilities. These core technology systems, used to manage taxpayer data and facilitate service and enforcement work, met schedule estimates for most releases delivering significant business value.

In FY 2009, the IRS revised its CADE strategy to focus on the completion of the new taxpayer account database. The Budget will help the IRS implement the new taxpayer account database for the 2012 filing season. The new database will allow the migration of 140 million individual taxpayers to a modernized, relational database that will support daily processing and result in faster refunds for all individual refund filers. Daily updating of individual taxpayer accounts by 2012 also will improve taxpayer service and accuracy and reduce interest paid on late refunds. The daily processing environment also will have improved data security and allow the development of new tools to combat fraud and improve enforcement activities. Completion of the taxpayer account database is the prerequisite for other major initiatives, including significant expansion of online services and transactions and the next generation of enforcement technologies.



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